Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Question: BET 133

Topic: Carbon Price – Australia's Long-term Productivity

Hansard Page: Thursday 31 May 2012, page 42

Senator WATERS asked:

Senator WATERS: How important will adjusting to a carbon constrained world be in Australia's long-term productivity performance?

Dr Gruen: We have an estimate of that. The estimate is that the impact on productivity growth is about 0.1 per cent per annum. So that is the estimate of how much it reduces productivity growth.

Senator WATERS: Adjusting to a carbon constrained world will reduce—

Dr Gruen: Just quickly, that is about one-third the size—

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Dr Gruen: Sorry, I will stop there.

Senator WATERS: How important will adjusting to a carbon constrained world be in Australia's long-term productivity performance?

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Senator WATERS: Well—

Dr Gruen: Sorry, I will stop there.

Senator WATERS: If you would not mind giving me some further details on notice as to how that figure is calculated and the assumptions behind it, I would be really interested in it.

Dr Parkinson: Senator, it has all been published. It is all in detail in the report.

Senator WATERS: Perhaps you could tell me where to look for the reasoning behind those calculations and the assumptions.

Dr Parkinson: We will actually reference you the report. The Treasury has done more modelling and documentation of this than has been done anywhere else in the world. We do not want to write anything new.

Answer:

The impact depends on the counterfactual – moving to a 5% target with no internationally sourced abatement will double the economic costs in 2020 compared to the government's carbon price.

Compared to no action, the modelling shows that a carbon price reduces productivity. The effect of carbon pricing on labour productivity can be calculated as the difference between the effect on GDP growth and the effect on employment growth. From Table 2 of the Update to the *Strong growth, low pollution* (SGLP) report, the average annual GDP growth is lower by 0.1 of a percentage point per year to 2050 and employment growth to 2050 is unaffected. As a result, the SGLP report projects that carbon pricing will have an impact on the long term labour productivity growth rate of about -0.1 of a percentage point per year.